

(7) The appraiser may be called upon, in condemnation proceedings or otherwise, to establish the validity and competence of his estimates. He must familiarize himself with basic rules of trial evidence so that his testimony will be admissible and of probative value. Since, as a witness, he must be prepared to offer convincing testimony, his report should contain an analysis of all factual data upon which his estimates are based.

(8) Local representatives of the Department of Justice are available for consultation in matters pertaining to acquisitions and legal principles involved in valuation problems.

(9) Appraised valuations and the supporting appraisal reports, for acquisition or disposal purposes, are privileged information and the appraiser should not divulge his findings and opinions to anyone except authorized officials of the Government. Section 301(3), Pub. L. 91-646, January 2, 1971, dictates that written statement of, and summary of the basis for, the amount of the estimate of just compensation, shall be furnished the property owner. This does not mean that the appraisal report or any part of it should be given to the landowner, but only a summary of the amount and methods of appraisal.

(10) The appraiser is usually the first personal contact the owner has with a representative of the Government. The owner is generally the prime source of information pertaining to the history, condition, management, and operation of the property. It has always been the Corps' practice for the appraiser to contact and consult with the owner of a property prior to and during the inspection of the tract. Section 301(2), Pub. L. 91-646, January 2, 1971, dictates that " * * * the owner shall be given an opportunity to accompany the appraiser during his inspection of the property." Before the appraiser makes his first visit to the property, he must make every effort to contact the owner and invite him or his designated agent or representative to accompany him on his actual field inspection. If personal contact is not possible, a registered letter should be sent to the owner. The appraisal report should reflect when and how the owner or his representa-

tive was contacted, whether or not he accompanied the appraiser, and any other pertinent comments.

(d) *Definition of Market Value.* "Under established law the criterion for just compensation is the fair market value of the property at the time of the taking. 'Fair market value' is defined as the amount in cash, or on terms reasonably equivalent to cash, for which in all probability the property would be sold by a knowledgeable owner willing but not obligated to sell to a knowledgeable purchaser who desired but is not obligated to buy. In ascertaining that figure, consideration should be given to all matters that might be brought forward and reasonably be given substantial weight in bargaining by persons of ordinary prudence, but no consideration whatever should be given to matters not affecting market value. The cash or on terms reasonably equivalent to cash, requirement is important and numerous courts have noted this factor." (Source: "Uniform Appraisal Standards For Federal Land Acquisitions," Interagency Land Acquisition Conference, Washington, DC, 1973.) This definition is considered to be consistent with another definition approved by the American Institute of Real Estate Appraisers which sets out market value "as the highest price estimated in terms of money which a property will bring if exposed for sale in the open market, allowing a reasonable time to find a purchaser who buys with knowledge of all the uses to which it is adapted and for which it is capable of being used."

(e) *Use of Appraisal Procedures.* (1) The appraisal of real estate is the estimation of the fair market value of a specified interest in a particular ownership of property, and the appraisal profession has developed certain basic appraisal techniques and procedures. There are three approaches to value which have become standardized—the cost approach; the market approach; and the income approach.

(2) In the COST APPROACH, the appraiser estimates the cost of reproduction of the buildings and land improvements. A deduction is made for depreciation due to physical deterioration, and also for functional and economic obsolescence. The value of the land is

then estimated by comparison with sales of similar unimproved tracts and added to the depreciated value of the improvements. This procedure is also referred to as the Summation Approach. This approach is always applicable in the valuation of publicly owned structures such as schools, fire houses, etc.

(3) In the MARKET APPROACH, the appraiser compares the subject property on an overall basis with similar properties which have recently sold. Adjustments are made for all factors of dissimilarity. All known sales are considered, but the appraiser selects only those which are verified to be good "arms length transactions" and considered to be most similar to the property appraised. After these sales are analyzed and adjusted to the subject, this data is then correlated into a final estimate of value as indicated by the market.

(4) In the INCOME APPROACH, the appraiser estimates the probable gross and net income to be expected from the rental of the property, adjusts for the quality and durability of this income stream, and processes this income into a value estimate by use of an appropriate capitalization rate.

(5) The appraiser then correlates the indicated value estimates from the three approaches into a final estimated market value. Consideration is given to the relative strengths and weaknesses of each approach. Normally, the most weight is given to the approach commonly used by the typical purchasers of the type of property appraised. In almost all routine appraisals the market approach is most applicable.

(f) *Importance of the Appraisal Function.* The measure of success or failure in any real estate transaction is inseparably bound up in the matter of price. The heart of the real estate business is the price estimate or appraisal. The importance of sound appraisals for the Department of the Army cannot be over-emphasized. The courts have established basic rules governing exercise of the power of eminent domain.

(g) *Appraisal is an "Estimate."* The market value of any real estate interest is not a matter of exact determination, and the appraiser does not "establish" or "determine" the value. An ap-

praisal is an "estimate" of current value based upon and supported by an analysis of all the factors, physical, economic, and social which influence the present and future benefits to be derived from the ownership of the property appraised.

(h) *The Appraisal Format.* In order to establish a degree of uniformity throughout the Corps as to an appraisal format, all staff appraisers and contract appraisers will follow the outline as set forth in the "Uniform Appraisal Standards For Federal Land Acquisition" and § 644.42.

§ 644.42 Appraisal report.

(a) *Preface.* The appraisal report is an important document which serves as a material aid in the acquisition of required real estate interests. It is also an indispensable factor in justifying expenditures of public funds. It is essential that the report indicates conclusively that the appraiser has considered and analyzed all available data and used logical reasoning and judgment in developing his value conclusions.

(b) *Scope of Reports.* (1) It is the Corps' practice that all appraisal reports will be prepared in narrative form. The report will include, as a minimum, all essential data which will disclose the purpose, the scope of the problem and the principal techniques and approaches employed. The report should contain all the pertinent supporting data required to sustain the appraiser's final conclusion of market value.

(2) The use of preprinted narrative sales data sheets is authorized. Care should be exercised to properly relate each sale to subject in the narrative. Use of individual forms is also authorized for tabular exercises, such as the "cost approach." In every instance the narrative should reflect the appraiser's reasoning.

(c) *Narrative Report Format.* (1) The following report format is taken verbatim from "Uniform Appraisal Standards For Federal Land Acquisitions," published by the Interagency Land Acquisition Conference, 1973.

B-1. Contents of appraisal report: The text of the appraisal report shall be divided into four parts as outlined below: